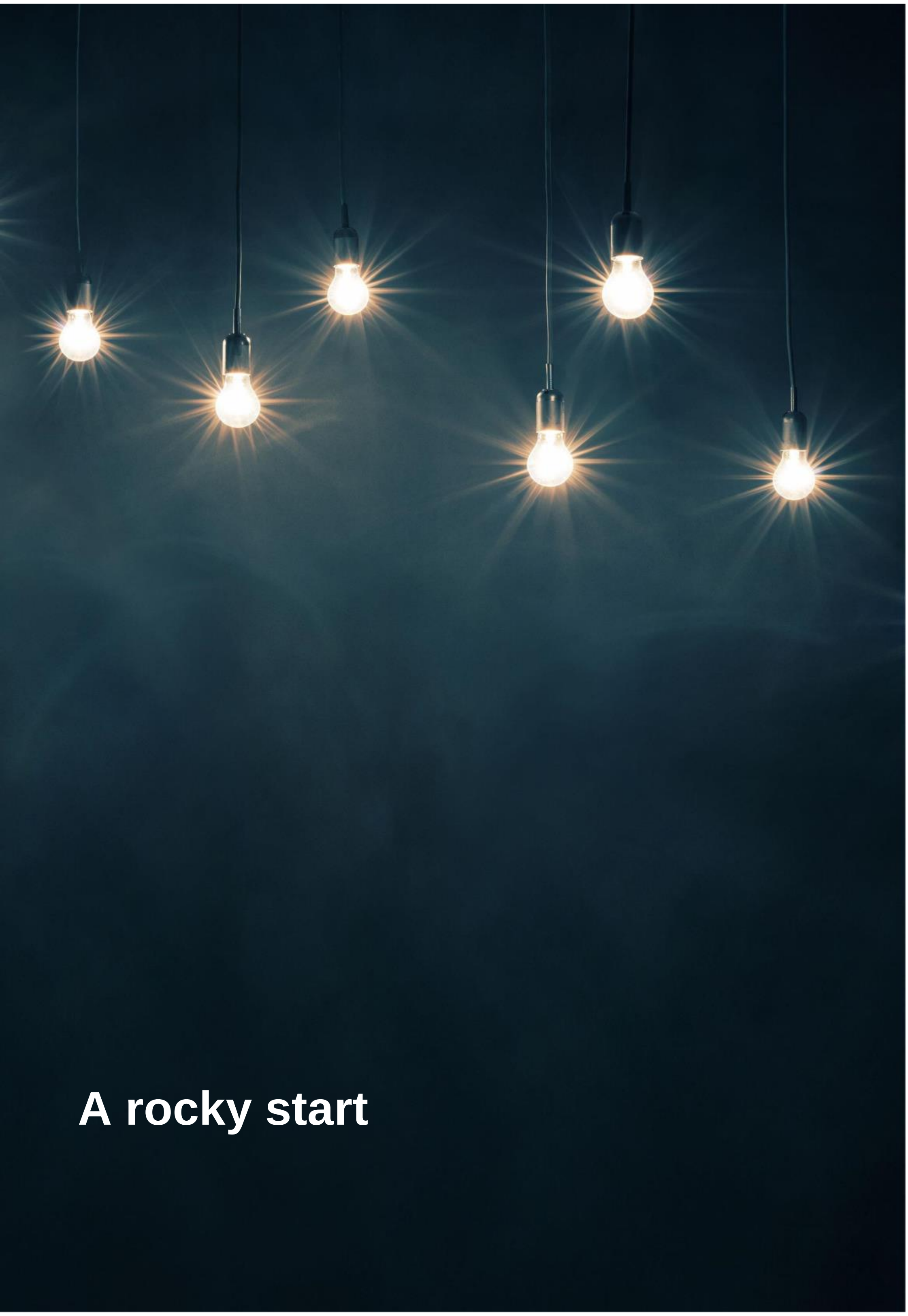
Weekly Market View



A rocky start

Geopolitical tensions do not detract from our positive outlook for risk assets, although one cannot rule out a brief pullback due to stretched technicals

Equities: We expect US earnings to accelerate in 2020, driving the market's outperformance

Bonds: Emerging Market bonds were unruffled by Middle East tensions, underscoring their resilience

FX: Gold hit our 12-month target early; we will look to add exposure below 1530

Contents

Chart of the week: Gold hits our 12-month target early

XAU/USD (open, high, low and close prices) and the next technical support and resistance levels

Source: Bloomberg, Standard Chartered

Editorial

A rocky start

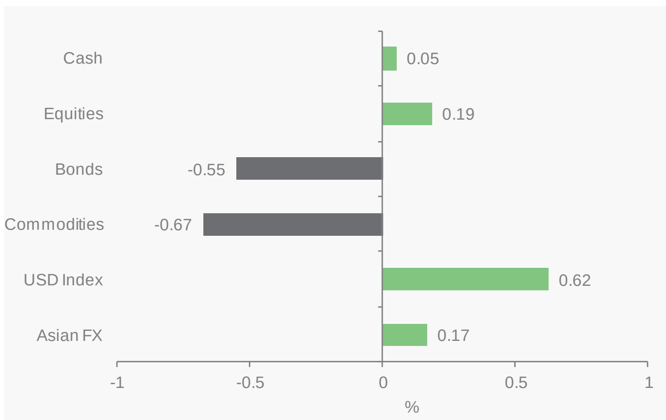
The brief 'flight to safety' caused by US-Iran tensions enabled us to register our first gains of the year, with gold hitting our 12-month target of USD 1,600/oz. We look to tactically add to our gold exposure on dips (see page 4), as it remains our preferred portfolio hedge, given elevated geopolitical risks.

The Middle East tensions do not detract from our positive outlook for risk assets, with preference for Euro area and US equities and Emerging Market (EM) bonds. Economic data in recent weeks have indicated further stabilisation in the global economy on the back of easing monetary and fiscal policies (see page 3). The US job market remains robust, which is likely to sustain consumption and fuel an expected earnings recovery in 2020 (see page 4). Also, China has stepped up its policy stimulus by enabling banks to lend more. The US and China are also due to sign an initial trade deal on 15 January.

While we cannot rule out a brief pullback in risk assets, given the extremely bullish sentiment following last year's record-setting equity market rally (see page 5), any reversal would be an opportunity to add exposure to our preferred markets.

Global equities eked out gains in the first week of 2020 and set a new record high, overcoming mid-week volatility caused by US-Iran tensions

Benchmark market performance w/w*



Source: MSCI, JP Morgan, DJ-UBS, Citigroup, Bloomberg, Standard Chartered (Indices used are JP Morgan Cash, MSCI AC World TR, Citi World Big, DJ-UBS Commodity, DXY and ADXY)

*Week of 02 January 2020 to 09 January 2020

Imminent US-China trade deal lifts sentiment

China's decision to send Vice Premier Liu He to the US to sign the first phase of a trade deal on 15 January suggests the two sides have decided to dial down their hardline stance on trade. While we do not expect this to lead to a long-term pact, given fundamental differences, it reduces a key risk facing risk assets this year. We need to watch whether and how soon the two sides roll back their existing tariffs as a significant rollback is not priced into risk assets, in our view.

The softening of trade disputes should help trade-exposed economies, such as Europe and China, recover from last year's downturn. Investor sentiment in the Euro area (Sentix) has rebounded from a six-year low hit in October; business confidence indicators in the Euro area, especially in Germany, have also stabilised and consumption remains buoyant across the region. However, continued contraction in German factory orders and weakness in US manufacturing suggest more confidence-building measures are needed to revive global trade.

Continued strength in the US job market (as seen in the private ADP payrolls report for December) implies sustained growth in US consumption, which should support a recovery in corporate earnings this year. We are also watching President Trump's impeachment trial in the US Senate and Democrat primaries in the coming weeks. US politics could be the source of market volatility this year. Hence, we emphasise maintaining a broadly diversified allocation, with a tilt towards Euro area and US equities, EM bonds, and gold (see page 5).

Middle East tensions fail to stir up oil

Crude oil's limited gains following the rise in US-Iran tensions support our view that the market is broadly balanced and that prices are unlikely to rise significantly as this would lead to global demand destruction and/or trigger a supply response from US shale oil producers. WTI oil prices briefly surged to an eight-month high just above USD 65/bbl, but subsequently fell towards USD 60/bbl (i.e. where they were prior to the escalation of tensions) after both the US and Iran signalled no further escalation in tensions. This should lower the near-term risk of a supply shock from the Middle East.

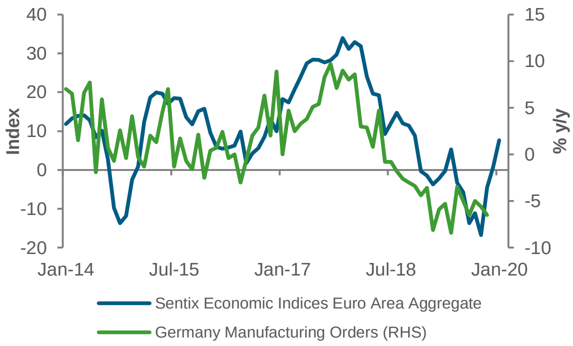
Our base-case is for a status quo where the US and Iran will continue sparring, which could create temporary volatility in oil markets (especially if ships in the Strait of Hormuz are targetted). However, WTI oil is likely to trade in a range (USD 50-60/bbl) in the next 6-12 months, and likely see a further correction from overbought levels (see page 6).

China ADR listings in Hong Kong to gather momentum

Prompted by Alibaba's successful debut on the Hong Kong bourse in November, more US-listed Chinese companies are seeking a potential secondary listing in Hong Kong this year. There are approximately 200 Chinese corporates listed in the US, of which c. 30 are eligible for secondary listing in Hong Kong. Potential candidates include online games operators, search giants, travel sites and e-commerce operators. Listing of the China ADRs is positive for the MSCI China index, in our view, as it should widen their investor base, with investors from China able to access the stocks via the Stock Connect scheme. Also, the China ADRs could expand the new economy sector in the Hong Kong market. The high earnings growth of the new economy stocks would likely lift the average earnings growth of China offshore equities. This would, in our view, act as a catalyst for increased fund inflow, earnings upgrade and share price performance for China offshore equities, our preferred market in Asia ex-Japan.

Euro area investor confidence (Sentix) has rebounded partly on expectations of a US-China trade truce, although the manufacturing sector remains weak

Euro area Sentix Investor Confidence index and German manufacturing orders



Source: Bloomberg, Standard Chartered

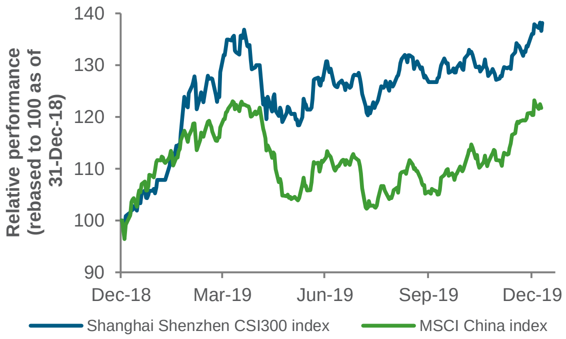
Crude oil prices gave up all of their gains after a brief spike as the US and Iran signalled no further escalation in tensions

WTI crude oil price

Source: Bloomberg, Standard Chartered

We expect China offshore equities to catch up with onshore counterparts this year after underperforming last year; secondary listing of China ADRs in Hong Kong should help this trend

Relative performance of Shanghai Shenzhen CSI 300 index (onshore equities) and MSCI China index (offshore equities)



Source: Bloomberg, Standard Chartered

What does this mean for investors?

Equities

What is the impact of the Middle East unrest on energy sector equities? The energy sector witnessed a spike in client interest in the first week of the year, driven by the escalation in tensions between the US and Iran. Intuitively, increased tensions should result in higher oil prices and a pick-up in energy sector share price performance, but this has not happened. Reasons for this include Iran's muted response to the US attack on its top commander Qasem Soleimani. The US energy sector is flat YTD as investors expect OPEC and other oil producers to increase output in response to a spike in oil prices due to increased tensions in the Middle East. The muted reaction of energy sector equities to the Middle East tensions supports our view of US and EU energy sector as a core holding, rather than a preferred holding.

We are also watching consensus expectations for US corporate earnings in 2020. Following flat earnings in 2019, consensus expectations are for 10% growth in 2020. A pick-up in earnings is a key driver of our preferred US equity market view. The consensus expects earnings growth to steadily rise from 6% in Q1 to 14% by Q4, with the energy and materials sectors leading the charge higher.

Bonds

Do you see any spillover from the Middle East tensions into EM bond markets? The EM USD government bond index was little changed over the past week, with underperformance in Middle Eastern government bonds as a result of the US-Iran tensions being offset by stable to higher returns from African and Latin American government bonds. We remain constructive on EM USD government bonds as this sub-asset class offers investors geographical diversification, which should shield them from idiosyncratic risks.

Meanwhile, Asian High Yield (HY) USD bonds outperformed Investment Grade (IG) counterparts in the week with bonds issued by China real estate developers rallying after the PBoC cut bank reserve requirements to further boost lending. As a result, the HY/IG bond yield premium multiples dropped from a decade high of 3.1x in Dec-2019 to 2.95x. Asia USD bonds remain a preferred area within bonds due to their relative stability given a dedicated regional investor base.

FX

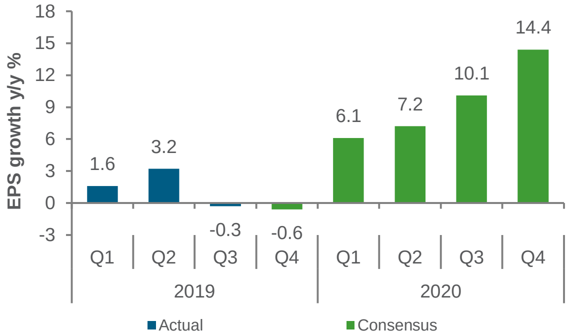
Is it prudent to add exposure to gold after the recent pullback?

The move to safe-haven assets during the escalation of US-Iran tensions earlier this week pushed gold to slightly exceed our target for 2020 at 1,600. The market was considerably overbought over the last few days and the quick drop back towards the 1,557 support – the previous breakout level – is a much-needed consolidation for the uptrend, in our view. We expect geopolitical tensions and US political uncertainties to ebb and flow throughout 2020, and we continue to consider gold as a solid portfolio hedge in a diversified asset allocation.

In the near term, further consolidation is likely as geopolitical tensions fade. However, we consider accumulating gold on dips to be an appropriate strategy, especially given our medium-term view that the USD will weaken this year. We see 1,500-1,530 as an attractive level to add gold exposure for a possible return towards this week's high around 1,600-1,610. A break below the 1,445 support would potentially negate the uptrend.

US earnings growth is expected to recover strongly this year after a lacklustre 2019

S&P500 index earnings growth and consensus estimates



Source: Refinitiv, Standard Chartered

Equity market technicals are positive across the board

Technical levels of key markets as of 09 January 2020

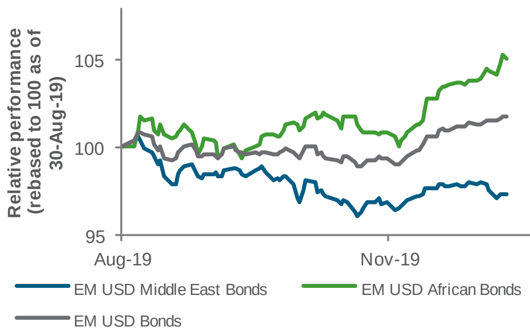
Index	Spot	1st support	1st resistance	Short-term trend
S&P 500	3,275	3,210	3,290	↑
STOXX 50	3,796	3,705	3,836	↗
FTSE 100	7,598	7,510	7,726	↗
Nikkei 225	23,740	22,950	24,100	↑
Shanghai Comp	3,095	2,960	3,155	↑
Hang Seng	28,561	27,850	29,000	↑
MSCI Asia ex-Japan	700	668	715	↑
MSCI EM	1,129	1,090	1,137	↑
Brent (ICE)	65	63	69	→
Gold	1,553	1,530	1,610	↑
UST 10Y Yield	1.85	1.68	2.00	↗

Source: Trading Central, Standard Chartered

Note: Arrows represent short-term trend opinions

EM USD bonds were little changed over the past week despite Middle East tensions, as decline in Middle East bonds were offset by gains in African bond markets

Relative performance of EM USD government bonds, EM USD Middle East bonds and EM USD African bonds (Index: 100 = 30 August 2019)



Source: Bloomberg, Standard Chartered

Top client question

After a stellar 2019, will equity markets continue to rally?

Our approach to this challenge is to start with a historical, quantitative lens before trying to gauge if the current situation might deviate from historical norms.

From a quantitative perspective (or Outside View, for those familiar with the work of Tetlock and Gardner in "Superforecasting: The Art and Science of Prediction"), our Equity and Bond Market Risk model suggesting relatively high probability for continued upside for both asset classes in the next six months, with history suggesting that equities should continue to outperform bonds and gold.

Countering this are signs that the market diversity has fallen (see the table on right). This means market behaviour is being dominated by a certain viewpoint or investor type. When this happens, the probability of a short-term reversal in risk assets is higher than normal. This view is reinforced by the fact that many equity markets look overbought from a technical perspective (see page 6), including those in the US, China and the Euro area. On balance, this suggests we should not be surprised if equity markets experience a pullback of around 5% in the coming weeks.

However, if we extend our analysis to the Inside View, a qualitative assessment of the outlook, we turn more optimistic. Global growth is expected to stabilise, led by the EMs and the Euro area. Meanwhile, after a challenging 2019, global corporate earnings are likely to accelerate by 10%. Finally, monetary and fiscal policies are being eased, which should not only stabilise growth but also reduce the downside risks to the outlook, increasing risk appetite.

At the regional level, we believe the outlook for Euro area banks, which as part of the financial sector is the largest sector in the region, is improving as the ECB has reduced the impact of negative interest rates on their earnings and an economic recovery should boost credit demand. With bank equities still cheap, we see significant upside, which usually correlates with the outperformance of overall Euro area equities.

Meanwhile, in the US, concerns about mutual fund outflows from equities are being more than offset by companies buying back their own shares. We see this continuing in 2020.

Of course, this should not be viewed as an 'all-or-nothing bet'. Any investment decision is best viewed from a probabilistic lens, which then results in approaching investments in a diversified asset allocation framework, and tweaking allocations depending on your own sense of the different perspectives. On balance, we continue to believe equities will do well in 2020, especially in the first half of the year. However, there are good reasons why volatility will rise in the coming 12-24 months, especially with geopolitical risks, including the US presidential elections, on the horizon. Therefore, we would continue to have a preference for equity exposure, but this should be balanced with exposures to bonds and gold.

While bond yields remain relatively low, we do not think they will spike significantly (i.e. push prices sharply lower) and, as such, we expect bonds to generate positive returns in 2020. For gold, we remain positive, but we believe the markets discounted too much too soon. Therefore, we would look to add exposure on any dip.

Assets with low and high market diversity

A downward pointing arrow indicates reduced diversity, and vice versa.

Level 1	Diversity	Direction since November
FTSE World Broad IG Bond ex-MBS Index	●	⇧
MSCI All Country World Index	○	⇩
Gold Spot	◐	⇩
HFRX Global Hedge Fund Index	○	⇨
Equity		
MSCI USA Index	○	⇩
MSCI Europe Index	○	⇨
MSCI UK Index	◐	⇩
MSCI Japan Index	◐	⇨
MSCI AC Asia ex-Japan Index	◐	⇩
MSCI EM ex-Asia Index	◐	⇩
Fixed Income		
FTSE DM IG Sovereign Bond Index	●	⇧
FTSE DM IG Corporate Bond Index	●	⇩
Bloomberg Barclays Global High Yield Index	○	⇩
JPM EM Global Diversified Bond Index	●	⇩
JPM EM Government Local Currency Bond Index	◐	⇩
JPM Asia Credit Index	●	⇩
Currencies		
USD/CNY	◐	⇩
USD/EUR	◐	⇩
USD/JPY	●	⇧
USD/GBP	◐	⇨
USD/AUD	◐	⇩
USD/SGD	○	⇩
USD/MYR	◐	⇩
USD/IDR	◐	⇩
USD/INR	●	⇩
US Treasury yields		
US 10-year Treasury yield	◐	⇩
Oil		
West Texas Intermediate (WTI)	◐	⇩

Source: Bloomberg, Standard Chartered; Data as on 8 January 2020

Legend: ○ Very low ◐ Low ● Moderate/high

Top client question

Are there any trend reversals in key markets following the escalation in geopolitical tensions?

The broad technical trends established since last year remain intact, suggesting that the recent escalation in US-Iran tensions has not been enough (at least yet) to alter those trends. Markets continue to focus on fundamental drivers, as we pointed out in our annual outlook – the US-China trade deal, easy monetary policy and expectations of a turnaround in global growth.

The MSCI All Country World index, up over 12% since October, has not broken any significant support. Indeed, there has not been a meaningful setback and the index is just a shade below its record high hit on 3 January (before the escalation in geopolitical tensions). The index has quite strong support at the early December high of 550, roughly coinciding with the 55-day moving average (and 3.5% below Thursday's close). The uptrend in equities remains intact, with the index likely headed towards initial resistance at 582 (2% above Thursday's close). Subsequent resistance is at 595 (4.2% upside) and 605 (5.8% upside). Having said that, the index is looking overbought in the short term. Our own measure shows, diversity in equities has shrunk to levels that at the very least precedes a consolidation / pause in the trend.

The USD is holding above fairly strong support on a slightly upward-sloping channel from 2018; i.e., it has continued to hover within its well-established range in recent months.

WTI Crude failed to sustain gains above the September high of 63.38 (in the aftermath of the Saudi drone attack). Oil has now fallen back to levels prior to the recent escalation in US-Iran tensions. The pace and the extent of the pullback this week raises the odds that oil remains confined in the past six-month range of around 50-65 (see chart on page 3).

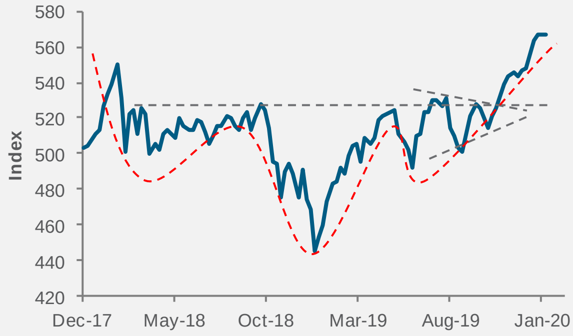
Despite safe-haven bids, the US Treasury 10-year yield has rebounded from key support at 1.67%, the lower end of the past three-month range. The upper edge of the range is a horizontal trendline from November at about 1.95%, slightly below the 200-day moving average.

The exception to the above is spot gold, which hit a six-year high this week. However, negative divergence (rising prices associated with declining momentum) on the weekly charts suggests XAU/USD's rally is losing steam in the short term.

In sum, despite an eventful week, markets largely continue to remain within the recently established ranges/trends and it appears that markets may need a significant catalyst to alter the trends.

Global stocks hit a new record high at the start of 2020

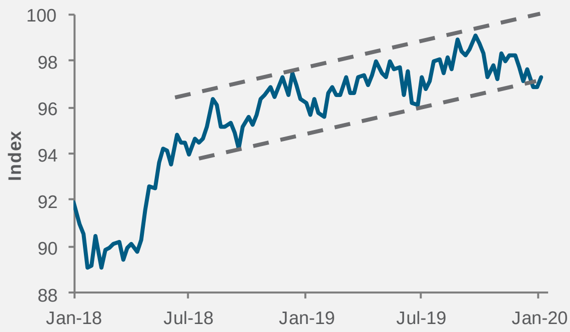
MSCI All Country World index



Source: Bloomberg, Standard Chartered

The broad USD index is holding above a strong support level on a slightly upward-sloping channel

USD (DXY) index



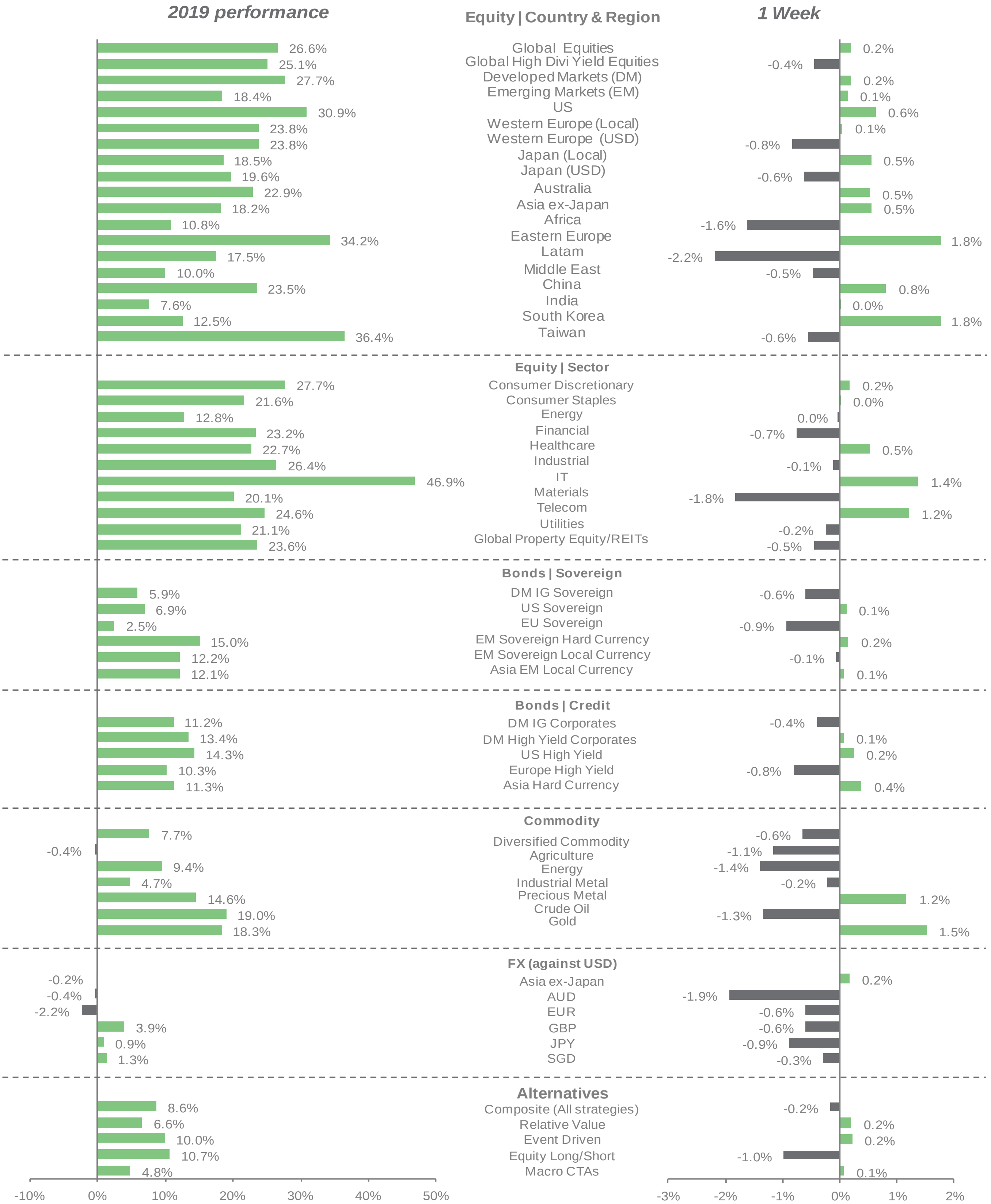
Source: Bloomberg, Standard Chartered

The US 10-year Treasury yield has rebounded from a key support at 1.67% and is approaching a key resistance at about 1.95%

US 10-year Treasury yield

Source: Bloomberg, Standard Chartered

Market performance summary*



Sources: MSCI, JP Morgan, Barclays Capital, Citigroup, Dow Jones, HFRX, FTSE, Bloomberg, Standard Chartered

*Performance in USD terms unless otherwise stated, 2019 performance from 31 December 2018 to 31 December 2019, 1 week period: 02 January 2020 to 09 January 2020

Economic and market calendar

	Event	Next Week	Date	Period	Expected	Prior
MON						
TUE	US	NFIB Small Business Optimism	14-Jan-20	Dec	104.9	104.7
	US	CPI Ex Food and Energy y/y	14-Jan-20	Dec	2.3%	2.3%
	US	Real Avg Weekly Earnings y/y	14-Jan-20	Dec	–	1.1%
	CH	Exports y/y	14-Jan-20	Dec	1.9%	-1.3%
WED	UK	CPI Core y/y	15-Jan-20	Dec	–	1.7%
	US	PPI Ex Food and Energy y/y	15-Jan-20	Dec	–	1.3%
THUR	JN	Core Machine Orders y/y	16-Jan-20	Nov	–	-6.1%
	US	Retail Sales Ex Auto and Gas	16-Jan-20	Dec	–	0.0%
FRI/SAT	CH	Industrial Production y/y	17-Jan-20	Dec	5.9%	6.2%
	CH	Fixed Assets Ex Rural YTD y/y	17-Jan-20	Dec	5.2%	5.2%
	EC	CPI y/y	17-Jan-20	Dec	–	1.0%
	US	Building Permits	17-Jan-20	Dec	1470k	1482k
	US	Housing Starts	17-Jan-20	Dec	1378k	1365k
	US	Industrial Production m/m	17-Jan-20	Dec	0.1%	1.1%
	US	U. of Mich. Sentiment	17-Jan-20	Jan P	99.0	99.3
	SK	BoK 7-Day Repo Rate	17-Jan-20	17-Jan	–	1.3%

	Event	This Week	Date	Period	Actual	Prior
MON	JN	Jibun Bank Japan PMI Mfg	06-Jan-20	Dec F	48.4	48.8
	CH	Caixin China PMI Composite	06-Jan-20	Dec	52.6	53.2
	IN	Markit India PMI Composite	06-Jan-20	Dec	53.7	52.7
	FR	Markit France Composite PMI	06-Jan-20	Dec F	52	52
	GE	Markit/BME Germany Composite PMI	06-Jan-20	Dec F	50.2	49.4
	EC	Markit Eurozone Composite PMI	06-Jan-20	Dec F	50.9	50.6
	EC	Sentix Investor Confidence	06-Jan-20	Jan	7.6	0.7
	EC	PPI y/y	06-Jan-20	Nov	-1.4%	-1.9%
	US	Markit US Composite PMI	06-Jan-20	Dec F	52.7	52.2
TUE	EC	Retail Sales y/y	07-Jan-20	Nov	2.2%	1.7%
	EC	CPI Core y/y	07-Jan-20	Dec P	1.3%	1.3%
	US	Cap Goods Orders Nondef Ex Air	07-Jan-20	Nov F	0.2%	0.1%
WED	GE	Factory Orders WDA y/y	08-Jan-20	Nov	-6.5%	-5.6%
THUR	GE	Industrial Production WDA y/y	09-Jan-20	Nov	-2.6%	-4.6%
	CH	PPI y/y	09-Jan-20	Dec	-0.5%	-1.4%
FRI/SAT	US	Change in Nonfarm Payrolls	10-Jan-20	Dec		266k

Source: Bloomberg, Standard Chartered; key indicators highlighted in blue
Previous data are for the preceding period unless otherwise indicated
Data are % change on previous period unless otherwise indicated
P - preliminary data, F - final data, sa - seasonally adjusted
y/y – year-on-year, m/m - month-on-month

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